



Memorandum

Date . OCT 4 1993

From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject Audit of Medicare Contractor's Segmented Pension Cost, Aetna Life Insurance Company (A-07-93-00633)

To Bruce C. Vladeck
Administrator
Health Care Financing Administration

This is to alert you to the issuance on October 5, 1993, of our final audit report. A copy is attached. The audit was of Aetna Life Insurance Company's (Aetna) implementation of its Medicare contract clause on pension plan segmentation. Our review showed that Aetna had, as of January 1, 1991, understated Medicare pension assets by \$3.0 million.

Under its Medicare contract, Aetna is required to identify, allocate, and report pension assets and costs separately for Medicare segments. Compliance required Aetna to:

- o compute actuarial liabilities for the Medicare segments as of 1981,
- o determine a ratio of Medicare's total actuarial liability to the plan's total actuarial liability as of 1981 (asset fraction),
- o allocate a portion of the total pension assets as of 1986 to Medicare based on the 1981 ratio,
- o update the 1986 Medicare assets to subsequent years, and
- o assess whether Medicare's pension costs should be determined by a separate segmented calculation.

Aetna omitted participants in its Medicare Systems Unit in computing the actuarial liability of the Medicare segment for 1981. This omission understated the 1981 asset fraction. Aetna also applied the fraction to the market value rather than the actuarial value of total plan assets. Aetna's use of the incorrect asset fraction and market value of pension assets understated Medicare's pension assets as of January 1, 1986 by \$384,702. We are recommending that

pension assets of the Medicare segment be increased by \$384,702 as of January 1, 1986 and that the increase be carried forward as an increase to the pension assets as of January 1, 1991.

Medicare's pension assets were understated by another \$2,626,674 in the update of Medicare segment assets from 1986 through 1990. The additional understatement occurred because of (1) the initial understatement in the 1986 assets and (2) not assigning gains/losses in various pension accounts on an equitable basis. We recommend that Aetna increase the assets of the Medicare segment as of January 1, 1991 by \$3,011,376 (\$384,702 plus \$2,626,674).

In responding to our draft report, Aetna agreed that the Medicare segment's assets are understated, but disagreed with the amount of the understatement. The reason for the difference in Aetna's and our calculations is the manner in which the Medicare Systems Unit is handled as a part of the segment. The Health Care Financing Administration regional office agreed with our recommendations.

Attachment

For further information contact:
Vincent R. Imbriani
Regional Inspector General
for Audit Services, Region VII
(816) 426-3591

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF
MEDICARE CONTRACTOR'S
SEGMENTED PENSION COST,
AETNA LIFE INSURANCE COMPANY**



OCTOBER 1993 A-07-93-00633



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-93-00633

Mr. Charles Gustafson
Assistant Vice President
Medicare Administration, M323
Aetna Life Insurance Company
151 Farmington Avenue
Hartford, Connecticut 06156

Dear Mr. Gustafson:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled "AUDIT OF MEDICARE CONTRACTOR'S SEGMENTED PENSION COST, AETNA LIFE INSURANCE COMPANY." The purpose of our review was to evaluate Aetna Life Insurance Company's (Aetna) compliance with the pension segmentation requirements of its Medicare contracts.

Aetna's Medicare contracts require the separate identification, calculation, and reporting of pension assets, and when appropriate, costs for the Medicare segment. Compliance requires:

- o computing actuarial liabilities for the Medicare segments as of 1981,
- o determining a ratio of Medicare's total actuarial liability to the plan's total actuarial liability as of 1981 (asset fraction),
- o allocating a portion of the total pension assets as of 1986 to Medicare based on the 1981 ratio,
- o updating the 1986 Medicare assets to subsequent years, and
- o assessing whether Medicare's pension costs should be determined by a separate segmented calculation.

Aetna incorrectly identified Medicare participants in determining the asset fraction. The misidentification of Medicare participants understated the asset fraction. When applied to the January 1, 1986 assets, Aetna's asset fraction understated the assets of the Medicare segment by \$384,702.

Aetna's update of the Medicare segment assets from 1986 through 1990 understated the assets of the Medicare segment by another \$2,626,674. The additional understatement occurred because Aetna's update (1) understated allocated investment earnings and expenses and (2) incorrectly omitted some participants from the segment.

We recommend that Aetna increase the assets of the Medicare segment as of January 1, 1991 by \$3,011,376 (\$384,702 plus \$2,626,674). Even though our recommended adjustment reflects changes made as a result of Aetna's response to our draft report, Aetna still disagrees with the amount of the recommended adjustment.

BACKGROUND

Title XVIII of the Social Security Act, Health Insurance for the Aged and Disabled (Medicare), provides that organizations may help administer Medicare under contracts with the Secretary, the Department of Health and Human Services (HHS). Most Medicare contractors, intermediaries (Part A) and carriers (Part B), performed under cost reimbursement contracts renewed annually. Aetna has administered Medicare Parts A and B operations under cost reimbursement contracts since the start of the Medicare program.

Reimbursement principles for cost reimbursement contracts are in the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations (FPR), and the Cost Accounting Standards (CAS). Medicare contracts provide that a contractor "...shall be paid its costs of administration under the principle of neither profit nor loss...."

To ensure that a no profit, no loss principle was followed concerning pension costs, the Health Care Financing Administration (HCFA) incorporated segmentation requirements into Medicare contracts starting with Fiscal Year (FY) 1988. The HCFA, in administering this requirement, distributed a pension cost questionnaire to contractors in 1989. The purpose of the questionnaire was to ensure that contractors developed and maintained the data necessary for segmentation calculations.

Criteria Governing Segmented Pension Costs

Since its inception, Medicare has paid a portion of the annual contributions made by contractors to their pension plans. These payments represented allowable pension costs under the FPR and/or the FAR. In 1980, both the FPR and Medicare contracts incorporated CAS 412 and 413.

The CAS 412 regulates the determination and measurement of the components of pension costs. It also regulates the assignment of pension costs to appropriate accounting periods. The CAS 413 regulates the valuation of pension assets, allocation of pension costs to segments of an organization, adjustment of pension costs for actuarial gains and losses, and assignment of gains and losses to cost accounting periods.

In addition to CAS requirements, HCFA, starting with FY 1988, incorporated segmentation language into Medicare contracts. The language specifies segmentation requirements and also provides for the separate identification of the pension assets for a Medicare segment. The contracts require:

- o computing actuarial liabilities for the Medicare segments as of 1981,
- o determining a ratio of Medicare's total actuarial liability to the plan's total actuarial liability as of 1981 (asset fraction),
- o allocating a portion of the total pension assets as of 1986 to Medicare based on the 1981 ratio,
- o updating the 1986 Medicare assets to subsequent years, and
- o assessing whether Medicare's pension costs should be determined by a separate segmented calculation.

The Medicare contracts identify a Medicare segment as:

"The term 'Medicare Segment' shall mean any organizational component of the contractor, such as a division, department, or other similar subdivision, having a significant degree of responsibility and accountability for the Medicare contract/agreement, in which:

1. The majority of the salary dollars is allocated to the Medicare agreement/contract; or
2. Less than a majority of the salary dollars is allocated to the Medicare agreement/contract, and these salary dollars represent 40 percent or more of the total salary dollars allocated to the Medicare agreement/contract."

The contracts also provide for separate identification of the pension assets of the Medicare segment. The identification involves the allocation of assets to the Medicare segment as of

the first pension plan year after December 31, 1985 in which the salary criterion was met. The allocation was to use the ratio of the actuarial liabilities of the Medicare segment to the actuarial liabilities of the total plan as of the first day of the first plan year starting after December 31, 1980.

Other CAS requirements apply to the calculation of pension costs. For instance, pension costs for a segment can consider all, or just active, participants (CAS, section 413.50(c)(9)). Also, if they materially affect a segment's ratio of assets to liabilities, transfer adjustments are necessary (CAS, section 413.50(c)(8)). Finally, the CAS addresses allocating or separately calculating pension costs for segments.

SCOPE OF AUDIT

We made our examination in accordance with generally accepted government auditing standards. Our objective was to determine whether Aetna had complied with pension segmentation requirements of its Medicare contracts. Achieving our objective did not require a review of Aetna's internal control structure. The audit addressed Aetna's initial determination of pension assets for its Medicare segment and later updates. Our review covered January 1, 1981 to January 1, 1991.

We address the CAS and FAR requirements relating to funding of pension costs in a separate audit report, A-07-93-00679. That audit work was done in conjunction with this audit on segmented pension cost. The same information was obtained and reviewed during both audits.

When readily available on a timely basis, we used information provided by Aetna's pension actuary. Information used in this audit included participant liabilities, normal costs, contributions, expenses, and earnings. We also used Aetna's personnel records, accounting records, pension plan documents, annual actuarial valuation reports, and the Department of Labor/Internal Revenue Service Forms 5500.

Using this information, we calculated the 1981 asset fraction, determined the 1986 Medicare segment assets, and updated the Medicare segment assets to 1991. The HCFA pension actuarial staff reviewed our update of the Medicare segment assets.

We performed on site work at Aetna's corporate offices in Hartford, Connecticut during July 1992. Subsequent work was performed at OIG, OAS offices using information as supplied by Aetna and HCFA's Office of the Actuary.

RESULTS OF AUDIT

1986 MEDICARE SEGMENT PENSION ASSETS

Aetna understated Medicare's share of pension assets by a net of \$384,702 as of January 1, 1986. The net understatement was the result of Aetna understating the 1981 asset fraction and using pension assets at market value. The understated asset fraction occurred because Aetna's calculations did not include all Medicare segment participants' liabilities in 1981.

Aetna's Calculations

Aetna excluded the actuarial liability of some active and inactive participants from the allocation ratio. Furthermore, Aetna did not consider the Medicare Systems Unit (Unit) which became part of the Medicare segment. Using the Medicare segment liabilities in relation to total plan liabilities as of January 1, 1981, Aetna used an asset fraction of 1.2500 percent. Applying the asset fraction to total 1986 plan assets of \$1,190,002,769, Aetna identified Medicare segment pension assets of \$14,875,035 as of January 1, 1986.

Segment Identification

Aetna's calculation of the 1981 asset fraction did not include pension plan participants in the Unit as a part of the Medicare segment. According to Aetna, the Unit is dedicated to Medicare and became a part of the Medicare segment during 1984. Therefore, the calculation of the asset fraction should have considered the participant liabilities for this Unit as a segment making up a part of the overall Medicare segment.

Complete participant liability data from 1984 was not available for this Unit. Complete and comparable data for the Unit was first available for 1986 from Aetna's Human Resource Management System. We used 1986 ratio data (Unit's liabilities in relation to total liabilities) to incorporate the Unit as a part of the asset fraction for allocating pension assets to Medicare for 1986.

Participant Identification

In calculating the asset fraction, Aetna excluded a number of participants in the units identified as a part of the overall Medicare segment. We compared participants in the units used in the calculation with information in Aetna's Human Resource Management System. The comparison showed that Aetna's 1981 Medicare segment liabilities excluded liabilities for 6 active and 24 nonactive segment participants.

Total Plan Asset Identification

Aetna applied its calculated asset fraction to the 1986 market value of the total pension plan (\$1,190,002,769) in determining pension assets of the Medicare segment. Medicare contracts provide for the asset fraction to be applied to "...the actuarial value of the undivided pension fund assets...." The actuarial value of the assets as of January 1, 1986 was \$1,066,517,849.

Summary

Using all the segment units and participants, we calculated an asset fraction of 1.4308 percent instead of Aetna's 1.2500 percent. We applied the revised percentage to the \$1,066,517,849 actuarial value instead of the \$1,190,002,769 market value of the pension assets. Our calculation resulted in a net increase of \$384,702 in Medicare segment assets.

Recommendation

We recommend that Aetna increase the actuarial value of the 1986 pension asset base for the Medicare segment by \$384,702.

MEDICARE ASSETS AS OF 1986 UPDATED TO 1991

Aetna's update of assets from 1986 to 1991 understated the Medicare segment's assets by an additional \$2,626,674 for a total understatement of \$3,011,376. The additional understatement partially relates to (1) the additional participants we identified as part of the Medicare segment and (2) gains on the additional Medicare segment assets identified as of January 1, 1986. An additional factor of significance was our change to Aetna's method of allocating asset gains and losses to both the Medicare segment and the nonsegment of the business. Our change was made to reflect a more equitable distribution.

Our update of assets from 1986 to 1991 started from an asset base that was \$384,702 higher than Aetna's 1986 asset base. The update also considered investment earnings, administrative expenses, and benefit payments associated with inactive and active participants identifiable to the Medicare segment in Aetna's Human Resource Management System. The calculation further included participants initially omitted from the Medicare segment by Aetna.

Our update used actuarial liabilities and normal costs supplied by Aetna. Except for assigning asset gains and losses, our updating methodology for 1986 through 1991 essentially paralleled Aetna's methodology.

Aetna's updating methodology for 1986 to 1991 did not assign asset gains to the Medicare segment on the same basis as it did to the rest of the company. Aetna established separate pension asset accounts. Gains/losses from some accounts were assigned to both the Medicare segment pension assets and the nonsegment pension assets. For other accounts, gains/losses were assigned only to the nonsegment pension assets. This method did not result in consistently distributing gains/losses of the total pension fund among all components of the total plan. In our updating, we assigned aggregate gains/losses of the total fund to components of the plan using ratios based on the market value of assets.

Our update increased Medicare segment assets as of January 1, 1991 by a total of \$3,011,376 (\$2,626,674 plus \$384,702). Our recalculation of Aetna's pension asset update for the segment, including audit adjustments, is shown in Appendix A.

Recommendations

We recommend that Aetna:

- o Increase the pension assets of the Medicare segment by an additional \$2,626,674 as of January 1, 1991. (This provides for a total increase of \$3,011,376 when considered with the prior recommendation.)
- o Establish as policy an equitable method of allocating pension asset gains/losses to segments.

AUDITEE COMMENTS

Due to the number, technical aspects, and complexity of the issues raised by Aetna in responding to our draft report, we have included only the following brief summary of Aetna's and our positions in the body of this report. A detailed synopsis of Aetna's comments and the OIG's response to those comments is provided in Appendix B. We have also included Aetna's comments in their entirety, except for pages 5 through 8 of the attachment presenting information considered proprietary and/or containing personal identifiers, as Appendix C.

Auditee Comments

In responding to our draft report, Aetna agreed that the Medicare segment's assets are understated, but disagreed with the amount of the understatement. Aetna developed and used actual participant data, instead of the estimates we used as a result of not being supplied with actual data during the course of our field work, in calculating the amount of the needed adjustment. Using the actual data and excluding the Unit from the segment, Aetna calculated that the assets of the Medicare segment were

Page 8 - Mr. Charles Gustafson

understated by \$1,832,984. Including the Unit in the segment, Aetna calculated an understatement of \$3,422,407.

OIG Response

We used the actual data supplied by Aetna in lieu of the estimates used for the draft report and included the Unit as part of the segment in calculating our understatement of \$3,011,376. The reason for the difference in Aetna's and our calculations is the manner in which the Unit is handled as a part of the segment.

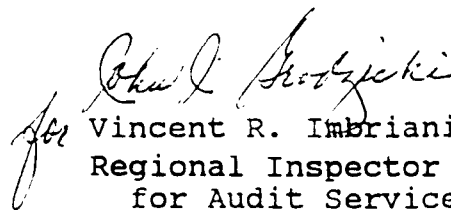
INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified on the following page. We request that you respond to each of the recommendations in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on his final determination.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR part 5.)

Sincerely,


for Vincent R. Imbriani
Regional Inspector General
for Audit Services, Region VII

HHS Action Official:

Mr. Sidney Kaplan
Regional Administrator, Region I
Health Care Financing Administration
John F. Kennedy Federal Building
Room 2325
Boston, Massachusetts 02203

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

STATEMENT OF AUDITED ASSETS
FOR THE PERIOD
JANUARY 1, 1986 THROUGH JANUARY 1, 1991

<u>Date</u>	<u>Description</u>	<u>Total Company</u>	<u>Other Segments</u>	<u>Medicare Segment</u>	
01/01/86	MVA	\$1,190,002,769	\$1,172,976,209	\$17,026,560	<u>1/</u>
	Deferred Gain	<u>(123,484,920)</u>	<u>(121,718,097)</u>	<u>(1,766,823)</u>	
01/01/86	AVA	1,066,517,849	1,051,258,112	15,259,737	<u>2/</u>
01/01/86	MVA	1,190,002,769	1,172,976,209	17,026,560	
	Contributions	0	0	0	<u>3/</u>
	Benefit Payments	(37,610,412)	(37,463,777)	(146,635)	<u>4/</u>
	Admin. Expenses	(1,515,596)	(1,493,911)	(21,685)	<u>5/</u>
	Investmt Return	<u>166,230,793</u>	<u>163,852,363</u>	<u>2,378,430</u>	<u>5/</u>
01/01/87	MVA	1,317,107,554	1,297,870,884	19,236,670	<u>6/</u>
	Deferred Gain	<u>(135,164,614)</u>	<u>(133,190,503)</u>	<u>(1,974,111)</u>	
01/01/87	AVA	1,181,942,940	1,164,680,381	17,262,559	
01/01/87	MVA	1,317,107,554	1,297,870,884	19,236,670	
	Contributions	0	0	0	
	Benefit Payments	(41,761,852)	(41,570,903)	(190,949)	
	Admin. Expenses	(1,666,567)	(1,642,226)	(24,341)	
	Investmt Return	<u>132,996,507</u>	<u>131,054,061</u>	<u>1,942,446</u>	
01/01/88	MVA	1,406,675,642	1,385,711,816	20,963,826	
	Deferred Gain	<u>(110,148,017)</u>	<u>(108,506,470)</u>	<u>(1,641,547)</u>	
01/01/88	AVA	1,296,527,625	1,277,205,346	19,322,279	
01/01/88	MVA	1,406,675,642	1,385,711,816	20,963,826	
	Contributions	0	0	0	
	Benefit Payments	(46,298,000)	(46,055,073)	(242,927)	
	Admin. Expenses	(4,434,759)	(4,368,667)	(66,092)	
	Investmt Return	<u>129,240,038</u>	<u>127,313,961</u>	<u>1,926,077</u>	
01/01/89	MVA	1,485,182,921	1,462,602,037	22,580,884	
	Deferred Gain	<u>(78,990,877)</u>	<u>(77,789,891)</u>	<u>(1,200,986)</u>	
01/01/89	AVA	1,406,192,044	1,384,812,146	21,379,898	

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

STATEMENT OF AUDITED ASSETS
FOR THE PERIOD
JANUARY 1, 1986 THROUGH JANUARY 1, 1991

<u>Date</u>	<u>Description</u>	<u>Total Company</u>	<u>Other Segments</u>	<u>Medicare Segment</u>
01/01/89	MVA	1,485,182,921	1,462,602,037	22,580,884
	Contributions	0	0	0
	Benefit Payments	(50,499,433)	(50,177,249)	(322,184)
	Admin. Expenses	(5,613,299)	(5,527,954)	(85,345)
	Investmt Return	<u>333,112,161</u>	<u>328,047,487</u>	<u>5,064,674</u>
01/01/90	MVA	1,762,182,350	1,734,944,321	27,238,029
	Deferred Gain	<u>(196,223,777)</u>	<u>(193,190,749)</u>	<u>(3,033,028)</u>
01/01/90	AVA	1,565,958,573	1,541,753,572	24,205,001
01/01/90	MVA	1,762,182,350	1,734,944,321	27,238,029
	Contributions	0	0	0
	Benefit Payments	(59,578,604)	(59,165,396)	(413,208)
	Admin. Expenses	(6,366,484)	(6,268,077)	(98,407)
	Investmt Return	<u>56,377,827</u>	<u>55,506,396</u>	<u>871,431</u>
01/01/91	MVA	1,752,615,089	1,725,017,244	27,597,845
	Deferred Gain	<u>(62,651,547)</u>	<u>(61,664,994)</u>	<u>(986,553)</u>
01/01/91	AVA	1,689,963,542	1,663,352,250	26,611,292
01/01/91	Proposed AVA	<u>1,689,963,542</u>	<u>1,666,363,626</u>	<u>23,599,916</u>
01/01/91	Recomm. Adjstmt.	<u>\$0</u>	<u>(\$3,011,376)</u>	<u>\$3,011,376</u>

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

STATEMENT OF AUDITED ASSETS
FOR THE PERIOD
JANUARY 1, 1986 THROUGH JANUARY 1, 1991

FOOTNOTES

- 1/ The Medicare segment's January 1, 1986 market value of assets (MVA) was computed by multiplying the total company MVA by the combined asset fraction of 1.4308 percent.

Amounts shown under "Other Segments" are always the difference between "Total Company" and "Medicare Segment."
- 2/ A portion of the total company actuarial value of assets (AVA) is allocated to the Medicare segment in proportion to the MVA. The deferred gain is the portion of realized and unrealized gains not currently recognized by the asset valuation method.
- 3/ Contribution amounts were obtained from valuation reports prepared by Aetna's actuary.
- 4/ Benefit payments represent annuity payments to retirees and cash-out payments to terminated participants during the year. These payments are reported in the valuation reports. Benefit payments for the segment represent estimated payments to retirees and terminated participants as identified in our audit. Refer to the finding in the narrative for more details.
- 5/ Administrative expenses and investment returns for the total company are reported in the valuation reports. A portion of the expenses and investment returns is allocated to the segment in proportion to the beginning-of-year asset values.
- 6/ The market value of assets at the end of the year is the sum of the market value of assets at the beginning of the year plus contribution deposits and investment returns less benefit payments and administrative expenses.

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

Auditee Comments

Although Aetna disagrees with the audit report and its recommendations, Aetna agrees that the Medicare segment's assets are understated. Instead of being understated by \$5,573,565 as set forth in the draft audit report, Aetna's computations show that assets are understated by \$1,832,984, providing the Medicare Systems Unit (Unit) is not considered. Inclusion of the Unit increases the understatement to \$3,422,407.

Aetna's disagreement with the draft audit report is included in its entirety, except for pages 5 through 8 of the attachment presenting information considered proprietary and/or containing personal identifiers, as Appendix C. Two letters comprise the formal response. One is written by the Manager of Aetna's Medicare Administration and the other by the Consulting Actuary for Aetna's Retirement Plan.

Aetna's response relates to the asset fraction and to individual amounts within the asset fraction (allocation percentage).

OIG Response

Since Aetna's response relates to the asset fraction and to individual amounts within the asset fraction, we are presenting the calculation as used in preparing our draft report in detail as a point of reference for further discussion. The calculation as used in the final report is presented later in this appendix.

**Medicare Segment as
of January 1, 1981:**

	<u>Proposed</u>	<u>Added</u>	<u>Audited</u>
Actuarial Liability:			
Active	\$8,731,301	\$ 714	\$ 8,732,015
Nonactive	472,831	389,682	862,513
Retired	100,505	1,206,100	1,306,605
Subtotal	\$9,304,637	\$1,596,496	\$10,901,133
Expense Loading	46,757	7,749	54,506
Total Jan. 1, 1981	<u>\$9,351,394</u>	<u>\$1,604,245</u>	<u>\$10,955,639</u>

**Medicare Systems Unit
as of January 1, 1986:**

Actuarial Liability:			
Active	<u>0</u>	<u>\$1,030,000</u>	<u>\$ 1,030,000</u>

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

1981 Asset Fraction:

$$\frac{\text{Audited Segment Liability}}{\text{Total Company Liability}} = \frac{10,955,639}{747,002,593} = 1.4666\%$$

1986 Asset Fraction:

$$\frac{\text{Audited Systems Liability}}{\text{Total Company Liability}} = \frac{1,030,000}{983,418,612} = .1047\%$$

Combined Asset Fraction **1.5713%**

Although we used one percentage in our calculations, it was a combined allocation percentage representing both the Medicare segment as of January 1, 1981 and the Unit as of January 1, 1986.

Medicare Systems Unit - Inclusion in Segment

Aetna's Position

The Manager of Medicare Administration states that the Unit personnel, for reporting purposes, did not become part of the Medicare segment until 1989. Aetna's Consulting Actuary states the Unit personnel joined the segment after January 1, 1986. Both indicate that the Unit personnel should not be part of the 1981 asset fraction.

OIG's Position

We used a combined allocation percentage as an adjustment for the Unit personnel rather than using a transfer of assets in 1986 or later year. We used 1986 because Aetna's records support that the Unit personnel was part of the Medicare segment by 1986. Aetna's records, and interviews with Aetna personnel, indicated that the Unit personnel became part of the Medicare segment during 1984. But, since liability data for these participants were not available for 1984, we included estimated liabilities as of January 1, 1986. This was the first year when Medicare's pension assets were to be determined under the contract segmenting agreement.

Records and interviews supporting our conclusion are listed as follows:

- o Aetna's records of departmental (cost center) history indicated that cost centers 21A and 41A were established during January 1984.

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

- o A listing of direct Medicare cost centers provided by an employee within Fiscal Management and Planning showed that by Fiscal Year 1985 (starting October 1984) personnel within cost centers 21A, 41A, and 421 were identified as Unit personnel.
- o Labor charge records back to and including 1988 showed that Unit personnel charges from cost centers 21A and 421 were charged 100 percent to Medicare. Records were not available prior to 1988.
- o Discussion with a long time Systems programmer indicated that Medicare programmers became part of the Employee Benefits Division (EBD) on January 1, 1984. At this time, they were moved to the building that housed Medicare where they had their own director.

In either 1987 or 1988, management of EBD was transferred from Corporate Systems to the Medicare Vice President. This transfer, however, was a technicality since personnel within cost centers 21A, 41A, and 421 had worked 100 percent on Medicare systems since 1984. During this period, 1984 through 1988, work performed by personnel within these cost centers was subject to the approval or disapproval of Medicare's administration.

The above information indicates that Unit personnel cost centers originated in 1984. By 1986, Unit personnel definitely met the contract definition of a segment. Therefore, we included the Unit as part of the Medicare segment.

In addition, retirement benefits for the Unit will eventually be paid from the Medicare segment's pension assets. Therefore, the segment's 1986 asset pool should have contained assets equal to the accrued liabilities of participants. Since the segment's assets did not contain a provision for Unit participants, we could have transferred assets into the Medicare segment during 1986 or we could have modified the 1981 allocation percentage so as to compensate for the Unit. We chose the latter which we considered to be both appropriate and equitable.

Had we transferred pension assets into the Medicare segment for Unit personnel in 1989 as advocated by Aetna, understated assets for the Medicare segment would have been virtually unchanged. Our recalculation shows that the Medicare segment's assets were understated by \$3,011,376 as of January 1, 1991. Using Aetna's approach of transferring assets for Unit personnel in 1989 results in understated assets of \$3,028,046

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

as of January 1, 1991, an increase of \$16,670 over our method. We consider the difference between using the two approaches to be insignificant.

Medicare Systems Unit - Participant Liabilities

Aetna's Position

Aetna's actuary further states that if the asset fraction is modified to recognize the post 1981 addition of the Unit, their accrued liabilities as of January 1, 1986 were \$699,418. The asset fraction would then increase to 1.44 percent (does not consider transfers in 1989) which, when applied, would increase Medicare's pension assets by \$3,422,407. Although the draft audit report does not reveal what liabilities were used for Unit personnel, the aggregate liability necessary to compute the audited asset fraction appears to be unreasonable.

OIG Position

In regard to the accrued liability for Unit participants, our draft report used an estimate of \$1,030,000. We used an estimate because Aetna did not provide us the actual accrued liability per individual on a timely basis. Our estimate was based on the ratio of 1986 total company payroll (\$891,881,136) to the 1986 actuarial liability (\$590,575,000) for active participants. We used the entry age normal actuarial cost method. The resulting percentage of 66.22 percent was applied to the Unit payroll of \$1,555,666 in arriving at \$1,030,162, rounded to \$1,030,000.

Subsequently, Aetna provided actual individual 1986 actuarial liabilities for Unit participants. Liabilities, including a cost of living adjustment factor, for the 52 active system participants totalled \$699,418 which is \$330,582 less than our estimate. The liabilities were reviewed and found to be acceptable by HCFA's Office of the Actuary. Our calculations in the final report use the liabilities of \$699,418.

Retired Life Liability

Aetna's Position

Aetna's response states that it was unable to provide retired life liabilities for January 1, 1981 prior to the issuance of our draft report. Since then, Aetna has been able to properly value the

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

liabilities and has used them in its calculations in response to the draft report.

Aetna also responded that the HCFA actuary apparently approximated the missing retired liabilities on the basis of the one retired life that was included in the original actuarial valuation. In responding to the draft audit report, Aetna found this one retired life liability to be in error. The liability reported as \$100,505 should have been \$283,728.

Liabilities of the missing retired participants were also less than the audit estimate since missing participants were older and had a lower liability than the one retired life that was used as the basis for the audit estimate. Liabilities of missing retired participants total \$227,760. All together, the retired liability for the segment was \$511,488 ($\$283,728 + \$227,760$).

OIG's Position

We used an aggregate estimate in the draft report because we were unable to acquire adequate and necessary data from Aetna in a timely manner during the course of the audit. On the basis of the one known liability of \$100,505, we used an addition of \$1,206,100 ($12 \times \$100,505$ rounded to nearest \$100) for the missing 12 participants. The draft considered \$1,306,605 ($\$1,206,100 + \$100,505$) as the total segment liability for retired participants which is \$795,117 greater than Aetna's liability of \$511,488.

Subsequently, Aetna provided actual individual actuarial liabilities for the missing retired participants. The liabilities were reviewed and found to be acceptable by HCFA's Office of the Actuary. Our calculations in the final report use the liabilities of \$511,488.

Summary of OIG's Position

In summary, we believe our treatment of the Unit in our calculations is reasonable and equitable. Where we have been provided actual data instead of having to use estimates, we have used actual data in recalculating the pension assets of the Medicare segment. Using the revised data, on the following page is the calculation of the asset fraction as used in the final report.

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

Medicare Segment as
of January 1, 1981:

	<u>Proposed</u>	<u>Added</u>	<u>Audited</u>
Actuarial Liability:			
Active	\$8,731,301	\$ 714	\$ 8,732,015
Nonactive	472,831	389,682	862,513
Retired	<u>100,505</u>	<u>410,983</u>	<u>511,488</u>
Subtotal	\$9,304,637	\$ 801,379	\$10,106,016
Expense Loading	<u>46,757</u>	<u>4,027</u>	<u>50,784</u>
Total Jan. 1, 1981	<u>\$9,351,394</u>	<u>\$ 805,406</u>	<u>\$10,156,800</u>

Medicare Systems Unit
as of January 1, 1986:

Actuarial Liability:			
Active	<u>\$ 0</u>	<u>\$ 699,418</u>	<u>\$ 699,418</u>

1981 Asset Fraction:

$$\frac{\text{Audited Segment Liability}}{\text{Total Company Liability}} = \frac{10,156,800}{747,002,593} = 1.3597\%$$

1986 Asset Fraction:

$$\frac{\text{Audited Systems Liability}}{\text{Total Company Liability}} = \frac{699,418}{983,418,612} = .0711\%$$

Combined Asset Fraction

1.4308%

Considering the revised asset fraction, the actuarial value of the Medicare segment's assets as of January 1, 1986 was revised to \$15,259,737 from \$16,758,195 as shown in the draft audit report. Our revised value of \$15,259,737 was computed by applying the combined asset fraction (1.4308%) to the total actuarial value of assets as of January 1, 1986, \$1,066,517,849. Although this revision represents a reduction of \$1,498,458 in segment assets, the revised amount of \$15,259,737 is still \$384,702 greater than Aetna's originally proposed pension assets of \$14,875,035.

The revised asset base for 1986 caused the roll forward of pension assets to change. The revised roll forward increased Medicare's pension assets by \$3,011,376 as of January 1, 1991. This increase is discussed in the audit report and is shown in the roll forward of pension assets shown in Appendix A.

AETNA LIFE INSURANCE COMPANY
HARTFORD, CONNECTICUT

AUDITEE COMMENTS
AND
OIG RESPONSE

ACTUARIAL REPORTS
1988 - 1991

Aetna's Position

Aetna states that the audit report recommends a revision to the January 1, 1991 asset value and makes no mention of revising the actuarial reports for plan years 1988 through 1991.

OIG's Position

The audit report focuses on the proper asset value as of January 1, 1991 after making the recommended changes to the initial asset fraction. The subsequent roll-up of assets is based on revised benefit payments, actuarial values, and the asset methodology for assigning gains and losses. Revised actuarial valuations for 1988 through 1991 were developed as part of the audit process and are part of the audit files. These valuations are available for review by Aetna and its actuary.



151 Farmington Avenue
Hartford, CT 06156

APPENDIX C
Terrence E. Keefe, CPA Page 1 of 11
Manager
Medicare Administration, M323
Aetna Health Plans
Aetna Life Insurance Company
203-636-5671
Fax: 203-636-1337

May 28, 1993

Mr. Vincent R. Imbriani
Regional Inspector General for Audit Services - Region VII
60 East 12th Street
Kansas City, MO 64108

Dear Mr. Imbriani:

I have reviewed your draft audit report dated April 29, 1993, as has our plan actuary, Thomas Dawidowicz, and we take exception with the following:

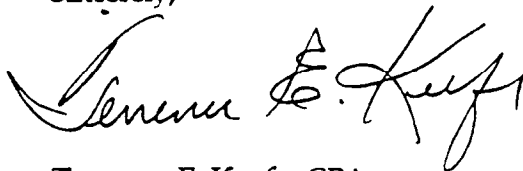
1. Allocation of an additional \$5,573,565 of plan assets to the Medicare segment. We feel this reallocation amount should be \$1,832,984. This is based upon a revised asset allocation percentage of 1.36%, rather than 1.5713%, as computed by your staff.
2. The inclusion of Medicare Systems personnel in the initial asset base as of January 1, 1981. As of this date these people were not part of the Medicare segment; they were under the reporting and supervision of what is now called Aetna Information Technology (Corporate Systems). It was not until 1989 that they became part of the Medicare segment for reporting purposes. We feel this is not appropriate, and that these people should be removed from the initial asset fraction as of January 1, 1981.
3. The Medicare Systems unit was not part of the Medicare segment in 1984; they did not become part of the Medicare segment until 1989, and they should not be part of a January 1, 1986 actuarial valuation.
4. The 1988 - 1991 actuarial reports are not being revised, rather just the January 1, 1991 value. The reports representing the years 1988 - 1991 should also be revised.

I request that you also review Mr. Dawidowicz's letter, which is attached, and supports the above areas of disagreements. Both Mr. Dawidowicz and I are available to discuss the above, prior to issuance of your final report.

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Mr. V. Imbriani
May 28, 1993

Should you have any questions or need further information, do not hesitate to call us. I trust that you will include our revised calculations in your final report if you are in agreement with them.

Sincerely,

A handwritten signature in cursive script, reading "Terrence E. Keefe". The signature is written in dark ink and is positioned above the typed name.

Terrence E. Keefe, CPA
Manager
Medicare Administration, M323
Aetna Health Plans
Aetna Life Insurance Company

c: N. Burke, HCFA - Boston
K. Byrne, RT5A
T. Dawidowicz, RT5A
H. Guerette, HCFA - Boston
C. Gustafson, M323
P. Hamel, HCFA - Boston
D. Harnes, HHS IG Audit, Jefferson City, MO
E. Shipley, HCFA - Baltimore
K. Weissman, RW2C

xxi:tek52893



Interoffice
Communication

APPENDIX C
Page 3 of 11
Thomas P. Dawidowicz
Actuary
Retirement Plan Consulting, RT5A
Defined Benefit Services
(203) 952-2579
Fax: (203) 952-2603

To Mr. Terrence E. Keefe, Manager, Medicare Administration, M323

Date May 26, 1993

Subject AUDIT ON MEDICARE CONTRACTOR'S SEGMENTED PENSION COST

As plan actuary I have reviewed the draft audit report on segmented pension cost that was sent to Charles Gustafson by Mr. Vincent R. Imbriani, Regional Inspector General for Audit Services, Region VII. That report recommends that additional funds be allocated from the Aetna retirement plan to the Medicare segment as the result of data and methods adjustments. I agree that the new information and methods adjustments requires that additional assets be allocated to the Medicare segment. However, I disagree with the amount of Mr. Imbriani's proposed allocation. I recommend that you respond to that draft report and suggest an alternate re-allocation of assets as discussed below.

In that draft report, Mr. Imbriani suggests that due to missing data in the original actuarial study completed last year, an additional \$5,573,565 of plan assets be allocated to the Medicare Segment as of January 1, 1991. While I agree that additional funds need to be reallocated to the Medicare segment, the amount of the proposed allocation is too large. I believe the amount to be allocated to the Medicare segment should be about \$1,832,984.

The audit report addresses two key issues in the asset allocation process. The first is the allocation percentage to be used as of January 1, 1986 to allocate the initial asset base to the Medicare segment. The second issue regards the initial asset base that is used in the allocation process. I'll address each of these issues.

Initial Asset Fraction

Missing Participant Data

As I understand your contract, the assets to be allocated as of January 1, 1986 to the Medicare segment are a prorata share of the total Aetna plan actuarial value of assets as of that date. The asset fraction used for this prorata allocation process is the ratio of the Medicare segment plan accrued liability as of January 1, 1981 to the total Aetna plan accrued liability as of January 1, 1981. In our original actuarial valuation completed during 1992, we determined this allocation percentage to be 1.25%. Based on the missing participant data that is now available, I believe that this percentage should be 1.36%. The Medicare audit report suggests that this revised percentage should be 1.5713%. In addition to the liabilities attributable to the missing participant data, the audit report argues that liabilities be added to the January 1, 1981 asset fraction for Medicare Systems personnel that became part of the Medicare segment during 1984.

Page 2
Mr. Terrence E. Keefe
May 26, 1993

For the missing Medicare data uncovered in last year's audit process, additional data was requested by and provided to the Medicare actuary to complete his analysis. The additional data provided included the actuarial liability for 6 active and 12 non-active participants. Due to difficulty in getting information on 12 missing retired participants, we were unable to provide the appropriate liability on these participants. Benefit amounts were provided, however. For our response to the audit report, we were able to properly value the additional retired life liabilities and have included those amounts in our adjustments noted below.

To complete his audit analysis, the HCFA actuary approximated the missing retired life liability to be about \$1.1 million. Apparently this estimate was based on the one retired life included in the original actuarial valuation. Since the additional retired participants tended to be older and have much lower benefits, the true additional liability for these participants was \$227,760. Thus, their estimate overstated this liability by about \$900,000.

As part of our work in preparing this response to the audit report, we noticed an error in the liability for the retired life included in the original January 1, 1981 valuation. That liability was reported as \$100,505. The correct value is \$283,728 and the correct annual annuity as of January 1, 1981 is \$18,595, rather than \$19,102.

The following summarizes our adjustment:

Original accrued liability	\$9,304,637
Incorrect 1/1/81 retired liability	- 100,505
Correct 1/1/81 retired liability	283,728
Additional active participants	714
Additional non-active participants	389,682
Additional retired participants	227,760
	<hr/>
	\$10,106,016
Expense loading	50,784
	<hr/>
Revised 1/1/81 accrued liability	\$10,156,800

Medicare Systems Unit

On page 5 of the letter from Mr. Imbriani, Mr. Imbriani notes that since the Medicare Systems Unit became part of the Medicare segment during 1984, the calculation of the asset fraction should consider these additional plan liabilities. However, the inclusion of a group added in 1984 is not consistent with the basic requirement that the asset fraction be based on the January 1, 1981 liabilities. On page 2 of his letter, Mr. Imbriani clearly states that HCFA contracts, starting with fiscal year 1988, "require: (1) computing the Medicare segment's actuarial liability as of 1981, (2) determining the ratio of Medicare segment's actuarial liability to the total plan actuarial liability as of 1981...." This statement agrees with my interpretation of your contract requirements. Thus, there appears to be no provision for adjusting the January 1, 1981 asset fraction for events that occurred after January 1, 1981. I suggest that no adjustment be made to the asset fraction liabilities to include the Medicare Systems Unit.

Page 3
Mr. Terrence E. Keefe
May 26, 1993

I find it unreasonable to adjust the asset fraction only for the addition of the Medicare Systems Unit. Other events such as assumption and census changes have occurred since January 1, 1981. If we adjust for the 1984 addition of the Medicare Systems Unit, we should adjust for all other changes prior to January 1, 1986 as well. My recommendation is to exclude from the asset fraction, the impact of all events that occurred after January 1, 1981.

In the event that you follow the recommendations of HCFA and modify the asset fraction to recognize the post-1981 addition of the Medicare Systems Unit, I have estimated the appropriate liabilities. It is not clear from the audit report how the January 1, 1981 Medicare Systems Unit liability was derived, but judging by the size of their revised asset fraction, their estimate of this liability does not appear to be reasonable. Using the January 1, 1986 census for the active participants working in the Medicare Systems Unit, we have estimated the additional actuarial accrued liability to be \$699,418. As of January 1, 1986, data was provided for 52 active participants. No data was provided for non-active and retired participants.

Because a January 1, 1986 actuarial valuation was not required for the entire Medicare segment, we don't have the January 1, 1986 Medicare actuarial liability for comparison purposes. Thus, we are unable to determine how much liability the Medicare Systems Unit added as a percentage of the Medicare segment liability on January 1, 1986. If available, the percentage increase in active participant liability could be used to estimate the increase in the January 1, 1981 Medicare segment liability. However, from the January 1, 1988 actuarial valuation we can develop a reasonable adjustment factor. As of January 1, 1988, the Medicare Systems actuarial accrued liability for active participants is \$906,460. This amount increases the January 1, 1988 Medicare segment accrued liability for active participants by 6.4%. I propose that we use this same 6.4% factor to estimate the increase in January 1, 1981 Medicare segment liabilities. This adjustment would add \$561,657 and increase the initial asset fraction to 1.44%, considerably lower than HCFA's suggested 1.5713%.

The following summarizes the proposed changes in the asset fraction:

	Accrued Liability	Asset Fraction
Total Aetna plan liability as of 1/1/81	\$747,002,593	100.00%
Original Medicare segment liability	\$9,351,394	1.25%
Medicare segment with 1/81 census changes	\$10,156,800	1.36%
Medicare segment with 1/81 census changes and Systems Unit	\$10,718,457	1.44%

Page 4
Mr. Terrence E. Keefe
May 26, 1993

Again, I don't believe it is appropriate to include the impact of the Medicare Systems Unit employees, unless those participants were actually part of the Medicare segment as of January 1, 1981. Throughout this analysis I have assumed that the audit report is correct and that the Medicare Systems Unit became part of the Medicare segment during 1984. I thought that this group joined the segment after January 1, 1986. I suggest that you research this issue and verify the timing.

Asset Allocation

Mr. Imbriani correctly points out that the asset fraction should be applied to the actuarial value of assets, not to the market value of assets. This is required by your contract provisions and by CAS 413. We missed this point and allocated the market value of assets. Note: As of January 1, 1986 the market value of assets was greater than the actuarial value of assets. Thus, we initially used too large an asset base to allocate assets to the Medicare segment.

In our initial asset allocation we allocated a share of the plan market value of assets to the Medicare segment on January 1, 1986 and started the plan's 5-year smoothing asset valuation method from that point. On the attached worksheets, we have recalculated the asset development from initial allocation on January 1, 1986 to January 1, 1991. For your information, we prepared two revised asset projections. Each starts with the Aetna plan actuarial value of assets on January 1, 1986. One estimate uses the revised 1.36% asset fraction and the other uses the 1.44% asset fraction. For benefit payouts, we modified the original benefit payout stream to include the missing data requested on Mr. Shipley's RET_BNFT.wk1 spreadsheet.

As a result of the revised asset allocation procedures, the additional assets to be allocated to the Medicare segment actuarial asset value on January 1, 1991 is \$1,832,984, if the 1.36% asset fraction is chosen, and \$3,422,407, if the 1.44% asset fraction is chosen.

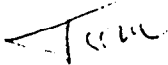
Summary

In summary, as a result of the various data corrections, we believe that the initial asset allocation percentage should be increased from 1.25% to 1.36%. This change incorporates the impact of all of the requested data corrections, but does not include the recognition of the Medicare Systems Unit as part of the Medicare segment on January 1, 1981. The additional assets to be added to the Medicare segment's actuarial value of assets on January 1, 1991 should be \$1,832,984.

Page 5
Mr. Terrence E. Keefe
May 26, 1993

The Medicare audit report calls for the addition of the assets to the January 1, 1991 actuarial asset value, but does not call for a revision of the 1988 through 1991 actuarial valuation reports. Once the initial asset fraction is decided upon, we should revise the January 1, 1988 through January 1, 1991 actuarial reports to reflect the increased plan assets and plan liabilities added to the Medicare segment.

Please let me know if you have any questions or comments on this information.


Copies: Charles Gustafson, Aetna, Medicare Administration
Kevin Byrne, Aetna, Defined Benefit Plan Services
David Diamond, Aetna, Defined Benefit Plan Services

REVISED ASSET ALLOCATION
[A]

Initial 1/1/81 Asset Fraction 1.36%

1986	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a. January 1 value	\$1,066,517,549	\$1,052,012,910	\$14,504,639
b. Employer contributions	0	0	0
c. Benefit payments	(37,610,412)	(37,463,777)	(146,635)
d. Expenses	(1,515,596)	(1,494,984)	(20,612)
e. Investment return	154,551,399	152,449,500	2,101,899
f. December 31 value	<u>\$1,181,942,940</u>	<u>\$1,165,503,649</u>	<u>\$16,439,291</u>

1987	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a. January 1 value	\$1,181,942,940	\$1,165,503,649	\$16,439,291
b. Employer contributions	0	0	0
c. Benefit payments	(41,761,852)	(41,570,903)	(190,949)
d. Expenses	(1,666,567)	(1,643,387)	(23,180)
e. Investment return	158,013,104	155,815,347	2,197,757
f. December 31 value	<u>\$1,296,527,625</u>	<u>\$1,278,104,706</u>	<u>\$18,422,919</u>

1988	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a. January 1 value	\$1,296,527,625	\$1,278,104,706	\$18,422,919
b. Employer contributions	0	0	0
c. Benefit payments	(46,298,000)	(46,055,073)	(242,927)
d. Expenses	(4,434,759)	(4,371,744)	(63,015)
e. Investment return	160,397,178	158,118,026	2,279,152
f. December 31 value	<u>\$1,406,192,044</u>	<u>\$1,385,795,915</u>	<u>\$20,396,129</u>

REVISED ASSET ALLOCATION

[A]

Initial 1/1/81 Asset Fraction

1.36%

	1989	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a.	January 1 value	\$1,406,192,044	\$1,385,795,915	\$20,396,129
b.	Employer contributions	0	0	0
c.	Benefit payments	(50,499,433)	(50,177,249)	(322,184)
d.	Expenses	(5,613,299)	(5,531,881)	(81,418)
e.	Investment return	215,879,261	212,748,038	3,131,223
f.	December 31 value	<u>\$1,565,958,573</u>	<u>\$1,542,834,823</u>	<u>\$23,123,750</u>
	1990	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a.	January 1 value	\$1,565,958,573	\$1,542,834,823	\$23,123,750
b.	Employer contributions	0	0	0
c.	Benefit payments	(59,578,604)	(59,176,864)	(401,740)
d.	Expenses	(6,366,484)	(6,272,473)	(94,011)
e.	Investment return	189,950,057	187,145,157	2,804,900
f.	December 31 value	<u>\$1,689,963,542</u>	<u>\$1,664,530,642</u>	<u>\$25,432,900</u>
New	January 1, 1991 value	\$1,689,963,542	\$1,664,530,642	\$25,432,900
Orig	January 1, 1991 value			\$23,599,916
	Additional assets			<u>\$1,832,984</u>

REVISED ASSET ALLOCATION

[B]

Initial 1/1/81 Asset Fraction

1.44%

1986	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a. January 1 value	\$1,066,517,549	\$1,051,159,696	\$15,357,853
b. Employer contributions	0	0	0
c. Benefit payments	(37,610,412)	(37,463,777)	(146,635)
d. Expenses	(1,515,596)	(1,493,771)	(21,825)
e. Investment return	154,551,399	152,325,859	2,225,540
f. December 31 value	<u>\$1,181,942,940</u>	<u>\$1,164,528,007</u>	<u>\$17,414,933</u>

1987	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a. January 1 value	\$1,181,942,940	\$1,164,528,007	\$17,414,933
b. Employer contributions	0	0	0
c. Benefit payments	(41,761,852)	(41,570,903)	(190,949)
d. Expenses	(1,666,567)	(1,642,012)	(24,555)
e. Investment return	158,013,104	155,684,914	2,328,190
f. December 31 value	<u>\$1,296,527,625</u>	<u>\$1,277,000,006</u>	<u>\$19,527,619</u>

1988	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a. January 1 value	\$1,296,527,625	\$1,277,000,006	\$19,527,619
b. Employer contributions	0	0	0
c. Benefit payments	(46,298,000)	(46,055,073)	(242,927)
d. Expenses	(4,434,759)	(4,367,965)	(66,794)
e. Investment return	160,397,178	157,981,360	2,415,818
f. December 31 value	<u>\$1,406,192,044</u>	<u>\$1,384,558,328</u>	<u>\$21,633,716</u>

REVISED ASSET ALLOCATION

[B]

Initial 1/1/81 Asset Fraction 1.44%

	1989	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a.	January 1 value	\$1,406,192,044	\$1,384,558,328	\$21,633,716
b.	Employer contributions	0	0	0
c.	Benefit payments	(50,499,433)	(50,177,249)	(322,184)
d.	Expenses	(5,613,299)	(5,526,941)	(86,358)
e.	Investment return	215,879,261	212,558,043	3,321,218
f.	December 31 value	<u>\$1,565,958,573</u>	<u>\$1,541,412,181</u>	<u>\$24,546,392</u>
	1990	Total <u>Aetna</u>	Other <u>Segments</u>	Medicare <u>Segments</u>
a.	January 1 value	\$1,565,958,573	\$1,541,412,181	\$24,546,392
b.	Employer contributions	0	0	0
c.	Benefit payments	(59,578,604)	(59,176,864)	(401,740)
d.	Expenses	(6,366,484)	(6,266,689)	(99,795)
e.	Investment return	189,950,057	186,972,591	2,977,466
f.	December 31 value	<u>\$1,689,963,542</u>	<u>\$1,662,941,219</u>	<u>\$27,022,323</u>
New	January 1, 1991 value	\$1,689,963,542	\$1,662,941,219	\$27,022,323
Orig	January 1, 1991 value			\$23,599,916
	Additional assets			<u>\$3,422,407</u>